

Autumn 2015

Annual accounts planning pays off

When you're preparing material for your annual accounts, the best guide is our questionnaire.

Please answer all questions. If you're unsure of the answers, mark these questions and contact us so we can explain what's needed. Sometimes you'll have to supply us with a list of expenses, such as details to calculate your business use of home calculation.

If you put any of this information on another piece of paper, instead of in the questionnaire, please show a reference in the questionnaire so we can readily find your figures.

Some clients supply more information than we need. This often leads to extra work and extra costs. Our questionnaire should be your guide. Stick to it. If you think other information would be useful, keep it apart from what we have asked for and discuss it with us. We'll tell you what to leave out next time.

Other things to remember

If you need to keep a **log book** to determine the private share of running costs, it has to be for a three-month representative period. Check to see when you last did a log. Inland Revenue requires you to complete a new one every three years, or more often if the percentage of private running changes by more than 20%. When did you last do your log book?

Write off **bad debts** from the books BEFORE balance date. Your write off must be in some written form. You should include a date as proof you wrote the amount off in time.

Check to see all **staff** have completed an IR 330. This is needed only once.

If you have a company car, the company needs to pay fringe benefit tax (FBT) for your private use or we make an adjustment for this. You can reduce FBT for every **complete** day it cannot be available for private use, such as while you're overseas or if

Get in first with terms to avoid embarrassment

Recently, a health professional was invited to deliver a speech. He assumed, as it was part of his professional activity, he would be paid.

When he finished, the organiser rose to thank the speaker and gave him a small gift in appreciation for his time. The speaker was furious.

What did he do wrong? He should have set out his terms in writing and asked the organisation to confirm this was acceptable before he spoke.

When a customer doesn't want to pay for your services after the event, it's you who's in trouble unless you have a signed agreement on terms. Always get your terms of trading to the customer, including the basis on which you're going to be paid, before you tackle the assignment. A signed agreement reduces the risk of a misunderstanding later.



A signed agreement about terms for services (such as professional speaking) can avoid embarrassment later.

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the car is being repaired.

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FBT is usually calculated based on 20% of cost price. Once you've had a car for more than five years, you can switch to 36% of "tax book value". It pays to make the switch for all cars costing more than \$15,000.

Stock take

If the total value of stock is greater than \$10,000 you need to count your stock at balance date. This can be a big job for retailers and often has to be done a few days either side of the date. Make sure you have systems to cope with stock arriving and stock sold between the time of counting and the actual balance date.

Watch out for payments made in advance. If the stock hasn't arrived, the amount paid in advance may not be an expense. You may need to adjust for this. It will depend on the terms. If it is an expense, include it in stock.

Some businesses, such as builders, also have partly completed work. Value this at the direct costs of materials, labour and any other processing costs. Don't include your profit.

Money owing to you (debtors or accounts receivable)

Watch out for work you have done before balance date but been paid for after balance date. If you get paid once a month, your April payment (March balance date) is probably for work done in March. This money forms part of your income for 31 March 2015.

Donations

You can claim for most charitable donations you've made by completing the IR 526 form. If these donations are made through a limited company, they are tax deductible, provided the company doesn't make a loss.

Entertainment

You'll need to identify entertainment expenses separately as they're generally only 50% deductible. Gifts of food and wine made to customers or suppliers are not entertainment and, so long as they're made in the normal course of your business, they are fully tax deductible and don't need separately identifying.

ACC

Employers get two bills a year, one for staff and one for themselves. It pays to check the bills as mistakes occur. If you have a high income and some is PAYE income, you could find you're paying premiums on total earnings above the maximum income threshold of \$118,191.

Bank accounts

We need evidence of all bank balances at balance date. Banks often wait until statements are full before sending them out. This is no good to us. Insist your bank sends you a statement at the end of each financial year for ALL accounts. This includes mortgages and loans.

When your home is in a trust

It's common to allow a family to live in their home owned by a family trust, on the basis the family pays all expenses.

If this agreement isn't documented, the payments made by the family could be treated as either rent paid for the use of the house, gifts to the trust or loans to the trust. Remove the uncertainty by making sure there is proper documentation. One way of doing this is to get the trustees to record an appropriate minute in a meeting.

There is often a mortgage over the house. The capital repayments on the mortgage are the responsibility of the owner, the trust. If you make those payments then, again, you're either making a donation to the trust or it owes you the money. Solution – documentation. If you choose to make it an increase in the trust's debt to you then you need an ongoing record to show the accumulated liability of the trust.

In a nutshell, you need some accounting done. While this might not need to occur every year, it should be done regularly.

Reverse print noticeably harder to read

Some clever Richard once had an inspirational idea. Instead of having black writing on a white surface why not have it the other way around?

Indeed, many years ago, teachers wrote with white chalk on a blackboard. Why do you think teachers have gone to writing with coloured pens on a white board? Answer: because it's easier to read.

Generally, reverse print is more difficult to read than the other way round. If you're not convinced and you're aged over 45, try looking at eftpos machines. It's noticeably harder to read white on a black background.

Don't be tempted to use reverse print in your advertisements, especially on newsprint which absorbs and spreads the ink so the type becomes blurry.

Plan to make business bigger, better

"Planning is critical." – From Colyn Devereux-K
Fragrance Holdings

Accountants talk of budgeting. This is putting dollar amounts to a business plan. What is a business plan? It's anything you like! Why do we urge you to plan? Because you'll get better profits if your plan is a success.

It doesn't matter how small your business is, planning should make it bigger. For small businesses best results are likely if you focus on boosting sales – but NOT at cut prices.

Don't think of a number and say: "That's my target." Do think of a number and think about how you will achieve this. Write down your plan.

- who is going to do what
- how much is going to be done
- by what date?

We call this an action plan.

Now hold regular meetings with your spouse/partner/friend to review how you're doing. Always stretch a bit. It's not good business planning to set easy targets.

The following example might help.

I'm a painter and have just set up in business from home. I decide sales of \$50,000 should be realistic for my first full year. My main problem is to establish a regular flow of work.

- I decide I need to be better known so joining an organisation which will achieve this should be in the plan. Be sure to get on the committee. It's important to be seen. Offer your services. Don't wait to be asked as that might not happen. Look for other realistic ways to boost your business:
- Advertising? I would probably leave that off my list. It's a hit and miss affair.
- Meeting people who might refer work to me is high priority.
- So I'm not forgotten, I'll send out newsletters

and, of course, I'll make use of the social media.

- I'll also send a card each year or ring the customer on the anniversary of when the job was done to make sure they're happy with the work.
- When I've completed jobs, I'll ask for references I can post on my website to help me be successful when tendering.
- When I do tender, I'll be sure to explain the advantages of choosing me.
- I'll use the advantage of being solo. All the work is done by a professional – me.
- I'll be first in with my tenders because I know most people want instant gratification and hence they won't want to wait for the slow coaches, or those who never respond.
- When I do each job, I'll discuss with the owner how to make the paint job last as long as possible. I'll tell them about regularly washing the house and other simple maintenance.
- I know people damage the walls so I'll also offer to return annually or after two years (your call) to touch up where needed, for which I'll charge an hourly rate.
- I'll make sure when the house does need a repaint, I'm the only one considered for the job, by keeping in touch and providing excellent service.
- I'll always ask the customer if they know of anyone else who needs some painting done.

Have we got you thinking? You could plan and boost your income. Try it NOW. You must write your plan down. Then follow it. The more thinking you do the better. No pie in the sky targets, please.

Putting dollars to your plan (budgeting) will

Staff sacking requires cool head



Be very careful when sacking staff.

Many employers lose their cases because they fail to follow "due process". If you're fed up with one of your staff, don't blow your stack. Get on the phone to your solicitor before you do anything. Remember, your reaction in the heat of the moment could amount to constructive dismissal. Follow your lawyer's advice very carefully.

Spit it out

When you ask callers to leave a message, keep your instructions as short as possible. Busy people find listening to your long ramble frustrating.

Provide the basics:

"XYZ is not available at the moment. Please leave a message." If you want to add your cell phone number say it clearly and allow enough time for the caller to be able to write down the

Beware online defamation

For many people, social media such as Facebook or blogs are to be avoided like the plague.

Some of their reasons might well be valid. Take the issue of defamation.

Did you know that the publisher of a blog or Facebook page may be liable for content on that page? It applies not only to an original post but also any further comments people have posted in response.

The law seems at first to take a contrary stance. Section 21 of the Defamation Act 1992 suggests a defence of innocent defamation. It says:

"In any proceedings for defamation against any person who has published the matter that is the subject of the proceedings solely in the capacity of, or as the employee or agent of, a processor or a distributor, it is a defence if that person alleges and proves –

(a) that that person did not know that the matter contained the material that is alleged to be defamatory; and



(b) that that person did not know that the matter was of a character likely to contain material of a defamatory nature; and

(c) that that person's lack of knowledge was not due to any negligence on that person's part..

However this defence ceases to apply as soon as the publisher receives notice or knowledge of the defamatory content. So if you own a Facebook page or blog and you're told comments you have published are defamatory, then you have to remove them as soon as possible. If you don't, you could be liable for the comments as publisher.

So it pays to think twice about what you say about people online – whether you like them or not!



TAX CALENDAR

April 7 2015

2014 Terminal Tax
(March balance date)

May 7

3rd instalment of 2015
Provisional Tax
(March balance date)
GST for March 2015

May 28

1st Instalment 2016
Provisional Tax
(December balance date)
GST for April 2015

Working for Families

Tougher new rules to determine family income started from 1 April 2014.

The objective is to include in family income anything received regularly which is used to meet regular living expenses. For example, if you take a lower salary and get a car in lieu, the salary reduction has to be included in family income. Similarly, the legislation is designed to stop people sheltering their income in a company or family trust.

The list of adjustments is long and the rules are complicated. If you have a claim for Working for Families, we'll need more information from you. If you download form IR 215 from the Inland Revenue website, you'll get a good idea of what we need to know. You'll also find a calculator on the IRD website.

First home buyers

From 1 April 2015 you'll be able to draw all your money out of your KiwiSaver account, except the Government's kick-start payment. That includes the annual government subsidy and employer's contributions. On top of this, you may take a holiday from making KiwiSaver contributions if you wish. Be aware there will be no employer subsidy or government contributions while your payments are stopped.

Could your domain name be nicked?

You can now register your domain name as .nz, leaving out the "co".

So can anyone else! This means you could have your name as xxx.co.nz and someone could register xxx.nz.

You have a short time to protect your domain name. It runs out on 30 March 2015. You have a choice:

- Register your name .nz as well as your .co.nz
- Reserve the .nz email address for two years at no cost.

If you reserve your shortened version, you can hold this for up to two years. Therefore, we can expect many businesses wishing to reserve will do so shortly before the 30 March 2015 deadline to get the maximum use of the free reserve period.

Go to Anyname.nz for more information.